

CITY OF DUNLAP  
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT  
ON APPLYING AGREED-UPON PROCEDURES  
FOR THE PERIOD  
JULY 1, 2013 THROUGH JUNE 30, 2014

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## City of Dunlap Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bernard A. Murphy	Mayor	January 2016
Jay Schaben	Council Member	January 2017
Carol Gall	Council Member	January 2017
Pete Seuntjens	Council Member	January 2019
Mark Klein	Council Member	January 2019
Mike Gunia	Council Member	January 2019
Nancy Baker	City Clerk	Indefinite
Meredith VanHouten	Deputy Clerk/Treasurer	Indefinite
Allen Nepper	Attorney	Indefinite

# MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 15, 2015

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

**Harlan Office:**

2309 B Chatburn Ave.  
P.O. Box 551  
Harlan, IA 51537-0551

Ph. (712) 755-3366  
Fax (712) 755-3343

**Avoca Office:**

305 W. High Street  
P.O. Box 609  
Avoca, IA 51521-0609

Ph. (712) 343-2379  
Fax (712) 343-5012

www.muxfeldt-cpa.com  
firm@muxfeldt-cpa.com

**Licensed In:**

Iowa  
Missouri

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

I have performed an agreed-upon procedures engagement of the City of Dunlap pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa legislature to provide certain minimum oversight of Iowa cities. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Dunlap for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards. Issued by the Comptroller general of the United States.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.

6. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
7. I reviewed and tested selected receipts for accurate accounting and consistency with the COA.
8. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
9. I reviewed the City's Annual Financial Report (AFR) to determine whether it was complete and accurately reflects the City's financial condition.
10. I reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
11. I reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
12. I reviewed the City's TIF debt certification forms filed with the County Auditor including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
13. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was not engaged to and did not conduct an audit of the operations of the City of Dunlap, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Dunlap, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dunlap and other parties to whom the City of Dunlap may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Dunlap during the course of my agreed-upon procedures. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*M. J. J. Associates, CPA, P.C.*

## DETAILED RECOMMENDATIONS

## CITY OF DUNLAP

### DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and journalizing.
- (7) Accounting System – performing all general accounting functions including journal entries and having custody of assets.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Investing – recordkeeping, investing, custody of investments and reconciling earnings,
- (10) Debt – recordkeeping, compliance and debt payments.

For the City Library, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.



CITY OF DUNLAP  
DETAILED RECOMMENDATIONS  
FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

(A) Segregation of Duties, (continued)

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in general government and public works. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

(C) Disbursement – 1 invoice and other supporting documentation was not present for one disbursement tested. Also, 1 disbursement tested was issued prior to Council approval.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and Council approval should occur before issuance of the claim.

(D) Deficit Balances – At June 30, 2014, the City had deficit balances in the General Fund, Economic Development Fund, Capital Projects Fund and Water Utility Fund.

Recommendation – The City should investigate alternatives to eliminate these deficit balances and return the Funds to a sound financial position.

(E) Payroll – Although time sheets are maintained for employees, there is no indication that the time worked has been reviewed or approved by appropriate supervisory personnel prior to payment.

Recommendation – Appropriate supervisory personnel should review and approve all employee hours before payroll checks are issued.

CITY OF DUNLAP  
DETAILED RECOMMENDATIONS  
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- (F) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation -- The City should establish a protocol for using pre-numbered receipts for collections of City funds.

- (G) Electronic Check Retention – Chapter 554D.114 of the Iowa Code allows the city to retain cancelled checks in an electronic format and requires the retention in a manner which includes an image of both the front and back of the cancelled check. The city did not receive images of both the front and back of the cancelled checks for the first six months of the fiscal year.

Recommendation – The City should comply with chapter 554D.114 of the Iowa Code and receive both copies of both the front and back of the cancelled checks.

- (H) Bank Reconciliations – Monthly bank accounts are reconciled to the City's monthly financial reports. However, a list of outstanding checks were not always prepared and retained for each month.

Recommendation – A listing of outstanding checks should be prepared and retained each month and attached to the bank reconciliations for review and approval.

- (I) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve all journal entries. Approval should be documented by signing or initialing and dating the journal entries.

CITY OF DUNLAP  
DETAILED RECOMMENDATIONS  
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- (J) Financial Condition – The Water Fund has insufficient balance to pay revenue note obligations.

Recommendation – The City should make transfers to the Water Fund or revisit water rates to maintain sufficient funds to pay revenue note obligations.

- (K) Annual Financial Report – The financial information of the City's Annual Financial Report for June 30, 2014 does not agree with the beginning and ending fund balances from the City's records. Transfers on the AFR do not reconcile to the actual transfers in the City's records.

Recommendation – The City should adjust the AFR to balance with the City's financial records.

- (L) Computer System – The following weaknesses in the City's computer system were noted:

The City does not have written policies and procedures for:

1. Password privacy and confidentiality.
2. Requiring password changes periodically.
3. Allowing only authorized personnel to request password resetting.
4. Not allowing another employee to request a reset of password for another employee and then having access to this password.

Recommendation – The City Should develop written policies and procedures addressing the above items to improve the City's internal Control over the computer system.

CITY OF DUNLAP

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

- (M) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation -- A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

- (N) Fund Balance -- The City's fund balance on the financial records is not in balance with the actual City cash on hand.

Recommendation -- The City should adjust the financial records to accurately reflect the actual cash balances of the City.

CITY OF DUNLAP

DUNLAP, IA 51529

**NEWS RELEASE**

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an agreed-upon procedures report on the City of Dunlap, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Muxfeldt Associates, CPA, P.C. recommended the City establish segregation of duties over cash, cash receipts, disbursements, payroll, financial reporting, journal entries, accounting system, computer system, investing, and debt along with controls over the accounting of the City Library. Muxfeldt Associates, CPA, P.C. recommends the City's certified budget be amended, have supporting documentation of disbursements paid, payroll related issues, approval of journal entries, eliminate deficit fund balances, reconciliation of utility billings, electronic check retention, develop written policies for the computer system.

A copy of the examination report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.